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Brooke F Adams 09/26/2006 10:16:02 AM From DB/Inbox: Brooke F Adams

Cable
Text:

C O N F I D E N T I A L TRIPOLI 00539

SIPDIS
CXCAIRO:
ACTION: ECON
INFO: PA POL IPS CONS FCS FAS DCM AMB AID MGT

DISSEMINATION: ECON
CHARGE: PROG

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FM AMEMBASSY TRIPOLI
TO RUEHC/SECSTATE WASHDC 1257
INFO RUEHTRO/AMEMBASSY TRIPOLI 1423
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEHAS/AMEMBASSY ALGIERS 0312
RUEHEG/AMEMBASSY CAIRO 0429
RUEHRB/AMEMBASSY RABAT 0295
RUEHTU/AMEMBASSY TUNIS 0559
RUEHVT/AMEMBASSY VALLETTA 0110
RUEHRO/AMEMBASSY ROME 0201

C O N F I D E N T I A L SECTION 01 OF 03 TRIPOLI 000539

SIPDIS

DEPARTMENT FOR NEA/MAG
PLEASE PASS TO EXIM, OPIC, USTR

E.O. 12958: DECL: 9/20/2016
TAGS: EINV EFIN ECON ECIN ETRD CMGT LY
SUBJECT: LIBYA TELLS EXIM - TRUST US, OUR CREDIT'S GOOD

CLASSIFIED BY: Elizabeth Fritschle, Pol/Econ Chief, Embassy Tripoli, Department of State.
REASON: 1.4 (b), (d)

¶1. (C) EXIM Bank conducted its first visit in over thirty years to Tripoli September 5-9. After an introductory session with Mohamed Siala, Secretary of International Cooperation, the rest of the week was marked by mixed success pursuing additional meetings with key GOL entities. EXIM's Vice President for International Business Development C. Michael Forgione and Africa Region Director John Richter ultimately met with a range of private, state-owned and multinational companies that all expressed a strong interest in developing U.S.-Libyan relations. However, apart from the Siala meeting, these contacts did not share specific GOL investment plans for the future, highlighting both the opportunities and frustrations of investing and operating in Libya. In addition, the EXIM team heard from both Siala and Foreign Investment Board Director Rajab Shiglabu that Libya would not sign an OPIC agreement, or any other proposed U.S. trade and investment agreements, unless they offered reciprocal opportunity.

EXIM Pitches Projects Backed by Sovereign Guarantee

¶2. (U) The EXIM team made a consistent pitch to its interlocutors during its week of meetings, stressing a desire to build a dialogue to educate both sides and increase comfort levels after a long hiatus of investment and business activity. VP Forgione emphasized that at this juncture, EXIM can only offer financing assistance to US business projects with government-owned entities in three areas: the aviation sector, project finance (requiring predictability and hard revenue

streams) and projects backed by a GOL "sovereign guarantee" of loan repayment. The delegation stressed that US-Libyan relations are entering a new phase, that US interest in Libya is serious and long-term, and that the USG and private business community had the endurance to weather minor difficulties and frictions during the normalization process.

Familiar Frustrations - Libya Needs Economic Diversification

¶3. (U) Given that EXIM is currently restricted to supporting US export contracts with government-owned entities, the bulk of requested meetings were with the GOL. However, these appointments proved impossible to schedule in the end, and many of the EXIM team's top priority meetings therefore went unfilled during its stay in Tripoli. Appointments with the Foreign Investment Encouragement Board, the Libyan Foreign Bank, Afriqiyah Airways, Real Estate Investment Company and Chevron produced a reasonably broad range of discussions on the Libyan investment and business environment. Furthermore, the team's visit was welcomed by the local business community as a sign that relations were normalizing, albeit at a slow and measured pace.

¶4. (C) Secretary of International Cooperation Mohammed Siala, from the General People's Committee for Foreign Liaison and International Cooperation officially greeted the EXIM team and provided the most detailed briefing on the GOLs perspectives. Siala argued the EXIM and other lending organizations should not take account of international rating systems that according to him, "are affected by political considerations, or in the case of Italy, ongoing disputes over old debts." He said that Libya sought to use oil revenues to fund sustainable development outside the energy sector. He also highlighted that Libya was still "looking for the rewards" from its decision to give up the WMD program, particularly any economic benefits to be gained from increased international trade and investment. Siala acknowledged the tension in Libya between those "who think the pace of reform is too fast and those who think it is too slow," but emphasized that the Jamahiriya system is adjusting quicker than anyone could have anticipated.

¶5. (C) In terms of economic diversification, Siala said he and other Libyan offficials were frustrated by international consultancies that focused on tourism for future growth. "Where is the added value from building hotels if the furniture is imported, the construction crews are foreign, the housekeeping staff and other laborers are foreign?" Siala continued. Libya would benefit more from manufacturing, agriculture and other areas that would create employment for Libyans. He mentioned the special tourism zone established under the direction of Saadi Qadhafi in the Zwara-Abukammash area, but without explaining more details, also said that the tourism zone would include a U.S. operated refinery. Despite Siala's point that Libya needed to expand beyond tourism and energy, the only other project he mentioned for prospective cooperation was a 5 billion power plant at Sirte. Siala said the Koreans won the tender with a proposal that used 80% Japanese equipment. He said that the Libyan's were not happy with that mix and might re-issue the tender. If so, he hoped Bechtel would give a turn-key offer that would include the plant and also the management of five or six other facilities.

Sovereign Guarantee? Trust Us, Our Credit's Good

¶6. (C) Asked what government entity was authorized to issue a sovereign guarantee, Siala demurred and said that the GOL tried to avoid that type of commitment. He claimed that Libya had never defaulted on any loans, "even paying all outstanding debts in advance when we became aware that our accounts would be frozen under the sanctions regime." He later qualified his statement and said that there were some private debts that couldn't be resolved due to a lack of documentation, but even in those cases the GOL was negotiating settlements to "split the difference" when amounts were in dispute. "Look at our

history," Siala urged, "any lender should be anxious to do business here, especially since our foreign currency cash flow is encouraging." In the example of an entity like the General Electric Company of Libya (GECOL), Siala claimed that the national budget was a guarantee. Any Libyan project that was in the budget had been voted on by the General People's Congress and the "cabinet" would have issued authority for a tender and for contract signing, therefore a defacto sovereign guarantee existed. When pressed, Siala also said that both the General People's Committee for Finance and the Central Bank could issue sovereign guarantees. But, "EXIM should have full confidence in any Libyan project that has government funding," Siala concluded.

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Reciprocity Deemed More Important Than Meeting Libya's Immediate Investment Needs
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¶7. (C) In Siala's opinion, the U.S. is not competitive in its trade and commercial activities, especially since the proposed OPIC agreement is not acceptable to the Libyan negotiators. He pointed out that Libya had already signed "agreements for the encouragement of investment" with many countries, as well as an agreement on double taxation with France. Libya expects reciprocity in trade agreements, and expects that since Libya is active in the U.S. stock market, that it should receive more encouragement in bilateral trade. In comparison, Siala cited his impression that Europeans and Asians are willing to invest in small, private ventures, exploring the Libyan free zones at Misurata and elsewhere, and taking advantage of the potential to access African consumers through Libya. Similarly, Rajab Shiglabu, Director of the Libyan Foreign Investment Board, told the EXIM team in a separate meeting that Libya would not consider the pending OPIC agreement because it did not offer reciprocal treatment. Shiglabu said Libya would consider signing a broad bilateral investment treaty with reciprocal terms, and then addendums such as an OPIC agreement could be discussed later. When asked why Libya doesn't consider the OPIC agreement as a "seal of approval" or signal that "Libya is open for business" Shiglabu consistently argues that intrepid businesspeople will gain great rewards engaging with Libya under its own protections; they do not need or desire any additional assurances. (Embassy Note: the proposed Libyan agreement is with OPIC for further review. End Note.) Elaborating on European cooperation, Siala noted that disputed Libyan debt to Italy was being resolved as part of a "political package of compensation". He said that Italy was being asked to build a coastal road as compensation for its occupation of Libya, and that the Libyan debt to Italy would be subsumed within the joint cooperation.

Oil Companies' Concerns over Visa Issuances

¶8. (U) Chevron's local representative briefed the EXIM team on the difficulties of working in Libya, particularly due to visa issuance problems, both for getting Amcits into Libya and getting Libyans into the U.S. Oil companies are relatively better positioned, both for obtaining Libyan visas (thanks to NOC facilitation) and attracting qualified Libyans for employment, than other entities. Service providers to the oil companies and other firms face a far more difficult time obtaining Libyan visas, which in turn hinders business growth and personnel development. The Chevron representative also explained that U.S. companies suffer from a "generation gap" (due to the sanctions period) because Libyan employees did not have U.S. training in the 80s and 90s. Now, the companies face ongoing obstacles sending Libyans to the States for training.

Snapshots from the Visit

¶9. (SBU) During the EXIM team's meetings several tantalizing new developments emerged:

-- The Real Estate Investment Company (REIC) - a Libyan-owned

company owned by the Central Bank and its five subsidiary banks - seeks to form a joint company with the Tennessee Development Corporation (TDC). This joint company would undertake a number of high-value construction projects around Tripoli totaling an estimated $700 million. EXIM may be approached to provide financing for some of these projects, although it is not clear that support would be forthcoming, absent a sovereign guarantee by the GOL. Also, the well-connected REIC is also working to import one million metric tons of cement via a Miami-based US company to fuel its construction and road-maintenance projects.

-- US company Delta Aluminum is apparently engaged in discussions to build an aluminum smelter, partnering with GECOL or a Libyan natural gas supplier. Libya is an attractive location for the smelter given low local fuel costs (energy needs constitute roughly 40% of the cost of aluminum production); raw materials would be imported from Latin American or Guinea. The estimated value of the project is 2-3 billion USD.

-- Dow Chemicals is in negotiations with the National Oil Company (NOC) to take-over an existing GOL petrochemical plant and double or triple its capacity.

-- The EXIM team urged the Financial Director of Afriqiyah Airlines to consider the purchase of Boeing aircraft, but was informed that Afriqiyah intended to honor its July 2006 MOU with Airbus to purchase up to $1.9 billion USD worth of aircraft.

-- Up to three free trade zones are being planned for Misurata.

¶10. (U) The EXIM delegation did not clear on this cable before departing post.
BERRY